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SUBJECT: LOW RICE PRICES COULD PRODUCE FUTURE SHORTAGE

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¶1. SUMMARY: The farm gate price of rice is 20 percent lower this year compared to 2008, dropping from MGA 500 per kilo to 400 (USD 0.26 to 0.21). Several factors contributed to this decline; chief among them are increased productivity in 2008, reduced demand from the country's largest distributor (Tiko), and politically-motivated price caps imposed by the current transition government. The low prices serve as a disincentive for off-season production, thus many households could face difficulties during the next rice shortage period beginning in October. END SUMMARY.

RICE SUPPLY UP, WHILE DEMAND DROPS

¶2. On the supply side, total production increased by 7 percent, growing from 3.9 million tons in 2008 to 4.2 million tons in 2009. Following the threat caused by last year's global food crisis, the government and foreign donors in Madagascar took measures aimed at increasing rice production. Fertilizers and improved seeds were subsidized, and farmers were encouraged to increase their production. Productivity rose to 3.03 tons per hectare from 2.87 tons/ha in the previous year. Good weather also contributed to bumper harvests in the main rice-growing regions of the country during 2009.

¶3. On the demand side, TIKO (the country's largest distributor) ceased its activities due to the recent political crisis, driving down demand. Secondly, the transition government (the High Transitional Authority, or HAT) has taken populist measures, including fixing the consumer price of rice at MGA 500 (USD 0.26), and exempting rice imports from value added taxes. During the first semester of 2009, imported rice amounted to 62,000 tons compared to only 46,000 tons in 2008 and 51,000 tons in 2007. As a result, small traders imposed low prices on farmers (mainly in the Alaotra region), asserting that gate prices must fall to comply with the HAT's price caps.

OFF-SEASON PRODUCTION EXPECTED TO BE REDUCED

¶4. Due to the low prices, farmers have fewer incentives to produce rice during the off-season period. Furthermore, because of the political crisis, no specific measures were taken to encourage production, as was done last year, leading to expectations that off-season production will be reduced this year. The Rice Observatory (Observatoire du riz) is currently conducting a survey to assess off-season production in order to evaluate the supply of rice available for the next shortage period that will begin in October.

UNCERTAINTY REGARDING THE STOCK OF RICE

¶5. Farmers have extremely limited capacity for storing their harvested rice. They sell most of their production immediately after the harvest to big traders, who stock the rice in anticipation

of the shortage period. This allows a "smoothing effect" regarding the quantity of rice available on the market throughout the year. During the last months however, some large traders have had imports illegally seized by security forces, and prefer to no longer stock rice. As a result, the supply of rice for the coming months is unknown. In 2004, a similar lack of information led to a rice crisis, since the authorities were unable to predict the need for imported rice to keep up with demand. In an August 6 publication on food security, the World Food Program and the Food and Agriculture Organization predicted that many households will face difficulties during the next shortage period.

¶6. The HAT government announced its intention to import 150,000 tons of rice to face the shortage period. However, no final decision regarding these imports has been made, as the government currently lacks funding. If the government's rice is sold at MGA 500 (USD 0.26), there is no incentive for private traders to import rice. The overall result will be a low stock of rice for the next shortage period, to begin in October, but the HAT has thus far been incapable of addressing the issue.

¶7. Comment: The economic impact of the political crisis has to date been focused on urban areas and has had only a limited impact on the majority of the Malagasy population who live in rural zones. The low number of cyclones in the last year, along with subsidized seed and fertilizer, contributed to bumper harvests in the main rice-growing regions. The transition government's populist price caps and increased imports could however lead to food insecurity throughout the island in late 2009 and 2010 if farmers fail to plant and harvest sufficient rice for the future. End comment.

STROMAYER